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Unemployment Insurance Review

August 1965

This issue commemorates the 30th anniversary of the Unemployment Insurance Program.

It includes special articles by:

John J. Corson
Stanley H. Ruttenberg
Daniel H. Kruger
Elizabeth Wickenden

UNITED STATES DEPARTMENT OF LABOR MANPOWER ADMINISTRATION

This issue of the

Unemployment Insurance Review

is dedicated to the memory of

Frances Perkins

Secretary of Labor, 1933–1945

Unemployment Insurance Review

August 1965
Vol. 2 No. 8

U.S. DEPARTMENT OF LABOR
W. Willard Wirtz, Secretary

MANPOWER ADMINISTRATION
Stanley H. Ruttenberg, Administrator

BUREAU OF EMPLOYMENT SECURITY
Robert C. Goodwin, Administrator

UNEMPLOYMENT INSURANCE SERVICE
William U. Norwood, Jr., Director

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Toward a more effective

Unemployment Insurance Program

A GENERATION of Americans has grown up in the three decades since President Franklin D. Roosevelt signed the Social Security Act which established the Federal-State unemployment insurance system. Today, the program is being examined to see how adequate it is to meet changing conditions.

Over the years, the unemployment insurance system has proved its worth as an economic stabilizer. It eased transitions from World War II and from the Korean conflict to peacetime enterprises. During the four postwar economic recessions, the orderly operation of the UI program and the prompt distribution of UI benefits to unemployed workers contributed significantly to their welfare, to public confidence, and to business stability. Today, the system is a recognized and vital element in the operation of the American economy.

The system's Federal-State character has been firmly established, and its basic goals remain essentially unchanged—to provide partial wage loss as a matter of right, with dignity and dispatch; to maintain purchasing power; to prevent an employer's labor force from dispersal; to maintain workers' skills; and to prevent a breakdown of labor standards. Conditions under which these goals are to be achieved, however, now challenge the system's ability to deal with them.

The UI system now has to serve a labor force of over 78 million; new occupations appear and old ones disappear; there are more white collar jobs than blue; and service workers outnumber those in other occupational categories.

In spite of the advancing economy, a growing number of workers—about 15 million—are still unprotected. They are employed in small firms, in State and local governments, and in other excluded industries and occupations. The standard of living has tripled since 1930, yet UI benefits compensate workers for only about one-third of their wage loss; in many instances, for only one-quarter or one-fifth.

Gaps in the program's coverage, benefit levels, duration, and ability to cope with extended unemployment and to meet the problem of income during training or retraining have weakened the program's effectiveness. Many State laws have been changed, but the changes proceed along established lines and reflect no basic change of direction or philosophy.

The program cannot rest upon a narrow idea of wage replacement. The concept of security entails more than protection against wage loss. A worker's security is not assured by income maintenance alone during layoff periods.

It may depend on his ability to adjust to changes. A man who loses his job today may be losing his lifetime skill or career. One and a half million workers a year exhaust their jobless benefits before finding, if they succeed, other jobs. And a worker's unemployment often means complete disruption of an employment relationship, so that his eventual return to work may well be with a different employer, in a different area, at a job requiring an entirely different skill.

We are living at a time when technological developments will bring innovations in our social and economic structure which at present seem inconceivable. These in turn will bring dramatic changes in the concepts, organization, and administration of our social insurance programs. The unemployment insurance system must fill a new and more creative role. To do so, weakness must be corrected.

Current history has set the stage for discussion of these current problems and issues: How does the changing economy affect the role of UI? How can we balance the need for more liberal benefits with the realities of a reasonable tax structure? How best can we adapt the program to job market changes and developments? What is the relationship between UI and an active manpower policy? What role can UI play in the war on poverty? And how can we reinforce the Federal-State relationship in UI?

The distinguished contributors to this special anniversary issue have reviewed the present system and focused attention on these questions. They have emphasized the need for changes to meet the challenges. As President Johnson said: "Improvements in our unemployment compensation system are essential if the program is to exert a stronger stabilizing effect on the economy and provide people with adequate income when out of work. The system has not kept pace with the times. . . . Now, when unemployment is lower than it has been for years, is the appropriate time to modernize the system so that it will better meet the needs of the workers, the community, and the Nation."

It is important for all to consider these views and to work toward improving the unemployment insurance program so that it may continue to serve well our Nation's goal for a greater society.

W. Willard Wirtz
Secretary of Labor

"Of course, unemployment insurance alone will not make unnecessary all relief for all people out of work for the entire period of a major economic depression, but it is my confident belief that such funds will, by maintaining the purchasing power of those temporarily out of work, act as a stabilizing device in our economic structure and as a method of retarding the rapid downward spiral curve and the onset of severe economic crises."

—Franklin D. Roosevelt (March 23, 1934)

"A strengthened unemployment insurance system not only will furnish more adequate aid to those who become unemployed, but also will do more to maintain the high volume of consumer purchasing power so necessary to the welfare of the entire economy. Thus it is a strong element in our program to support growth and expansion in the economy."

—Harry S. Truman (April 6, 1950)

"* * * further legislation is still needed. * * * This program has proved to be one of the most successful means for combining the interest of the economy as a whole with the interest of the individual worker."

—Dwight D. Eisenhower (January 16, 1961)

"I cannot emphasize too strongly the need and importance of strengthening our unemployment compensation system. These improvements will not only ease the burdens of involuntary unemployment, but will add to our built-in defenses against recession."

—John F. Kennedy (May 14, 1963)

"Improvements in our unemployment compensation system are essential if the program is to exert a stronger stabilizing effect on the economy and provide people with adequate income when out of work."

—Lyndon B. Johnson (May 18, 1965)

The Challenge of Changing Times

THE Federal-State system of unemployment insurance represented, in 1935, an experimental venture into an unexplored area of government activity by means of a unique intergovernmental arrangement. Guidelines and experience were lacking as to statutory provisions, administrative organization, or procedures best suited to the job. Nevertheless, the program got underway with little delay. By January 1939, all but two States had been collecting contributions for at least 2 years and were paying benefits; the remaining two States began benefit payments in July 1939.

For 30 years, unemployment insurance has been the major protection available to individuals and to the economy against the loss of wages and purchasing power arising from unemployment. Each year, millions of workers have used benefits to pay rent and buy groceries for themselves and their families. The billions of UI dollars thus spent have, in turn, been respent again and again, providing added purchasing power at the community level and helping to stop downward economic spirals.

Recognition of the program's value need not blind us to its shortcomings. It has made a great contribution, but it can make a greater one. Particularly in the light of the current commitment to combat poverty, we should be closing the gaps in UI protection and improving its administration.

It was, therefore, appropriate that the House Ways and Means Committee spent much of the 30th Anniversary month in public hearings on an administration proposal to strengthen and improve the Federal-State program of unemployment insurance for short-term unemployment, and to backstop that program with a Federal program for those of the long-term unemployed with substantial past employment.

As the national economy becomes more and more interrelated, unemployment becomes an increasingly complex problem; one aspect is the existence even in periods of high employment of a significant volume of unemployed workers with firmly demonstrated attachment to the labor force. In both human and economic terms, it is important that they be reabsorbed in productive activity with the least personal hardship and waste of skills. For many, however, reemployment will require personal and occupational adjustments.

Among the issues to be resolved by the Ways and Means Committee is whether the Federal Government should help in this adjustment by a program of extended duration of UI benefits. If the Committee believes there should be a program, it must decide what form it should take, particularly whether it is needed in "good times" as well as bad.

Another decision to be made by the Committee is whether the wide interstate variations in benefit adequacy and in taxes reflect the kind of interstate competition that the Federal act was originally designed to eliminate. The bill before the Congress is designed in part to make it easier for States to provide adequate benefits without having substantially higher employer taxes than those in competing States.

Other changes being considered by the Committee would eliminate some of the limitations on coverage, curb restrictions on payments to claimants who are jobseeking in another State, and soften the trend toward increasingly harsh disqualifications. Still others are aimed at encouraging qualifying requirements which represent a reasonable degree of past attachment to the labor force.

Those of us in the program know, probably better than anyone else, the importance of administration, especially claims determination and adjudication, in the successful working of a UI program. This aspect is recognized by the legislative proposal, which calls for steps to increase the supply of trained personnel and to improve the training of present staff.

Finally, the Committee is considering the advisability of providing for a continuing critical look at unemployment insurance in relation to the changing economy in which it operates, through a comprehensive and continuous program of research to evaluate the effectiveness of the system.

The experiment of 30 years ago has proven its worth. Now, on the basis of 30 years' experience, the program should be reviewed and revised to meet the needs of a changed economy.

ROBERT C. GOODWIN, *Administrator,*
Bureau of Employment Security

The Goals and Tasks Ahead

COMMEMORATIVE issues of magazines all too readily take on the aspects of memorials to past accomplishment. However, 30 years after passage of the Social Security Act initiated the American unemployment insurance system, we are not yet ready to treat unemployment insurance with the combination of respect and indifference that sometimes accompanies memorials.

We need a strong unemployment insurance system. Indeed, it may be argued that this need is even greater now than it was in 1935. Not only in number but also as a proportion of the labor force, many more people now depend on wages for their livelihood than in 1935. At the same time, the development of such characteristics of our economy as installment buying has made the worker's continuity of income more important than ever—for him and his family and also for the economy of the community.

We are a long way from the goal of a wholly adequate unemployment insurance system. The number of wage and salary workers protected by unemployment insurance has more than doubled in 30 years, but the number still lacking that protection—about 15 million wage and salary workers—is almost equal to the program's original coverage. The number of weeks for which benefits are now provided does not cover the full unemployment period of almost a third of the beneficiaries. The limitation on the maximum weekly benefit amount in most States results in failure to provide the insured unemployed worker with a wage-loss replacement equal to half his weekly wage. Universal coverage, benefit duration long enough to cover the temporary unemployment of insured workers, a weekly payment which replaces at least 50 percent of the wage loss of the great majority of insured workers during their unemployment—these are basic goals not yet accomplished.

Until these goals are attained, unemployment insurance must be improved so as to more effectively protect the workers and provide purchasing power to the community. Thirty years ago UI was presented to the people of the United States as our first line of defense against the problems of unemployment. In 1964, only 40 percent of those unemployed in the United States were receiving UI benefits. The 60 percent of unemployed workers not entitled to UI benefits could reasonably suggest that unemployment insurance was a weak "first line of defense."

Unemployment insurance should not be expected to meet the needs of all the unemployed. For example, it does not seem well suited to deal with the self-employed nor does it readily lend itself to meeting the problems of unemployed labor-force entrants. At this point, however, the unfinished agenda of unemployment insurance appropriately includes extending its protection to all wage and salary workers.

Although these still missing program dimensions may loom largest in public discussions of UI, they are only part of the agenda. Unemployment insurance has added considerably to the Nation's economic intelligence, but there remains a great deal that we do not know about the work force, the unemployed, and even the operation of a UI system. The vast changes that have taken place in labor-force patterns, in the economy as a whole, and in unemployment insurance itself have brought a multitude of new problems, relating not only to program content but also to financial and administrative management. For unemployment insurance personnel, their net effect should be anything but complacency. At every level of operation, the challenges to the staff are substantial. They run the gamut—from the apparently simple problem of courtesy to claimants to the complexities of legal interpretation and case adjudication, from scheduling claims reporting to programming for electronic data processing, from making individual benefit computations to devising adequate tax structures. Yet these few examples do little more than illustrate some of the day-to-day urgencies of the task.

Recognizing the seriousness and importance of the work to be done points up the crucial significance of the quality and character of the staff that has to do the job. At the 30-year mark, it is natural to think in terms of generations. In UI circles, comparisons are often drawn and contrasts made between the "old timers" of the program's earliest days and the staff members who have joined the system in recent years—often to the disparagement of the latter group.

It is true that the UI staffs of the late thirties and early forties were, in a very real sense, the products of the same economic and social forces that produced the American UI system. Almost all of them had a close familiarity with the social and economic effects of large-scale unemployment. They knew, from their own experience, or from friends and relatives, what being out of a job means to a worker who depends on wages for his livelihood. As a result, they identified themselves with unemployment insurance as a cause, often worked long hours, and tended to approach their work with zeal and devotion.

Most of the new generation of UI staff have no such personal experience in their background. This does not mean that the young man or young woman who joined the local office staff last year is unaware of economic crises or is unfamiliar with the insecurity of workers who bear the risk inherent in our economic system. What it does mean is that the newer staff member is less likely to start with a preconceived commitment to unemployment insurance as a basic solution to the problems of unemployment; he is more likely to examine it objectively and to compare it with other available approaches. He is more apt to question the program's basic assumptions, both as to content and method, and to be concerned with the question of how the UI system is to be coordinated with other programs dealing with unemployment. To meet today's problems, these values are as much needed and desired as the zeal and dedication of the "old timers."

The future success of the program depends upon the extent to which we can accept the necessity of change in response to today's problems and challenges while still preserving the basic principles upon which the program was founded. This is the demanding and exciting task ahead.

WILLIAM U. NORWOOD, JR., *Director,*
Unemployment Insurance Service

Members of the first Social Security Board, created in August 1935: (left to right) Arthur J. Altmeyer, John G. Winant (Chairman), and Vincent M. Miles.

Directors of the Federal-State Unemployment Insurance Program

R. Gordon Wagenet
1935–40, 1946–53, 1956–60

Ewan Clague
1940–41, 1943–46

John J. Corson
1941–43

John Morrison
1953–54

Forest L. Miller
1955–56, 1960–62

William U. Norwood, Jr.
February 1962–

Unemployment Insurance: An Appraisal 30 Years After Establishment

John J. Corson *

THIRTY years have elapsed since that hot August day on which President Roosevelt signed the Social Security Act and, thus, established this country's unemployment insurance system. To what extent, in 1965, does this system meet or fall short of the expectations that were born with its establishment?

The nature of this Federal-State system was outlined by President Roosevelt in a message to the Congress on January 17, 1935. When transmitting the report of the Committee on Economic Security, he said:

> * * * I have concluded that the most practical proposal for unemployment compensation is the levy of a uniform Federal payroll tax, 90 percent of which should be allowed as an offset to employers contributing under a compulsory State unemployment compensation act. The purpose of this is to afford a requirement of a reasonably uniform character for all States cooperating with the Federal Government and to promote and encourage the passage of unemployment compensation laws in the States. The 10 percent not thus offset should be used to cover the costs of Federal and State administration of this broad system. Thus, States will largely administer unemployment compensation, assisted and guided by the Federal Government. An unemployment compensation system should be constructed in such a way as to afford every practicable aid and incentive toward the larger purpose of employment stabilization. This can be helped by the intelligent planning of both public and private employment. It also can be helped by correlating the system with public employment so that a person who has exhausted his benefits may be eligible for some form of public work as is recommended in this report. Moreover, in order to encourage the stabilization of private employment, Federal legislation should not foreclose the States from establishing means for inducing industries to afford an even greater stabilization of employment.

The elements of the Federal-State unemployment insurance system that were enacted by the Congress are enumerated in the first half of the foregoing paragraph. The roots of the extensive adoption of employer merit rating are found in the last sentence (and of course in the Report of the Committee on Economic Security to which the President referred). Only the "intelligent planning of both public and private employment" and the correlation of "the system with public employment" for workers who have exhausted benefits remain lacking after three decades.

Legislative Action Federal and State

Titles III and IX of the Social Security Act, as enacted in 1935, covered only those employers who had eight or more employees in each of 20 weeks within a calendar year. It exempted agricultural labor, domestic service, and family employment because it was deemed to be adminstratively impracticable to include them. Moreover, the powerful organizations of farm employers simply did not want them covered. State and local government employees were exempted because they were beyond the Federal Government's taxing power. For other reasons the employees of employers operating in the navigable waters of the United States and the employees of nonprofit organizations were excluded.

By July 1937, all of the then 48 States, the District of Columbia, Hawaii, and Alaska, had unemployment insurance laws on their books. Most of these laws followed closely the pattern of coverage suggested to them by the Federal law. In 31 of these 51 laws, the employees of employers of 8 or more were covered. Twenty States provided for broader coverage; 10 States covered all employees in establishments with 1 or more employees. The aggregate result was that, in 1938, about 20 million workers were protected by unemployment insurance—a little more than a third of the civilian labor force.

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All but two States (Michigan, $16; and Wyoming, $18) started with maximum basic weekly benefit amounts of $15, as recommended by the Committee on Economic Security. In setting the formulas for benefit duration, however, most States went a little beyond the Committee's recommendations. In four States (Alabama, California, Idaho, and Rhode Island) benefits were payable for as long as 20 weeks. Five other States provided for 10 to 11 weeks of extended benefits (the District of Columbia, Louisiana, Massachusetts, Mississippi, and South Carolina).

In the context of the late 1930's, a period of deep depression, the system that was established was a daring and controversial venture. It was daring in the light of the volume of unemployment then on hand and the volume that might be expected. It was controversial in that the very obligation of the employer to provide for his employees when he laid them off was being established for the first time. And it was controversial in that it chose one set of mechanisms, to create unemployment insurance, from among several—unemployment reserves, employee contributions, governmental contributions, extended benefits, and others—over which debate raged.

"It is our conviction," the Committee on Economic Security wrote, "that these controversies have developed largely because there has been no action and, therefore, no practical experience * * * Further investigations and other devices for delay will merely enhance the negative character of the debate. What is needed at this stage is demonstration, not further debate and research."

Consistent with this empirical approach, great latitude was given to the States in framing their unemployment compensation laws within the requirements of the Social Security Act. It was reasoned, and hoped, that the States would become separate laboratories in which experiments in unemployment insurance would be conducted. Thus, Americans might develop unemployment insurance schemes that would increasingly meet what we now recognize, better than in 1935, as the gnawing and persistent problem of an industrial society.

Evolution of Federal Legislation

During the 30 years that have ensued, State freedom of action on unemployment insurance has, if anything, been increased. Since 1939, when adoption of a personnel merit system was added as a condition for Federal administrative grants, no Federal legislation has been adopted that restricts the freedom originally given to the States by the Social Security Act. On the other hand, the Federal law was amended in 1950 to restrict somewhat the authority of the Secretary of Labor to find that a State unemployment insurance law fails to meet Federal standards for administrative grants and for employers' tax offsets.

A few Federal amendments have increased the scope of unemployment insurance. In 1946, the Federal unemployment tax was extended to maritime service and the States were permitted to cover the crews of American vessels. In 1954, the Social Security Act was amended to provide Federal unemployment benefits for Federal civilian employees (UCFE) with the aid of and through State employment security agencies. Similarly, unemployment benefits were extended in 1958 to ex-servicemen (UCX).

In 1954, the Federal unemployment tax coverage was extended to include firms employing four or more workers. The States followed suit. On January 1, 1956, 28 States covered employers of four or more, 4 States covered employers of three or more, 1 State covered employers of two or more, and 18 covered employers of one or more.

Since 1956, there have been few additional changes. Twenty-one States now cover employers of one or more persons. Michigan, which extended its coverage in 1965 to include employers of one or more, is the fourth State in 20 years to be added to this category.

The program's initial coverage of 20 million has much more than doubled. Average monthly employment covered by unemployment insurance now numbers over 48 million. Noncovered employment, however, totals 15 million.

	Noncovered employment (millions)
Small firms	1.8
Agriculture and farm processing	1.9
Nonprofit organizations	1.7
Domestic service	2.6
State and local government	6.8
Other	0.3

Our review suggests that since the passage of the Social Security Act the primary influence of Federal legislation has been to induce some expansion of unemployment insurance coverage. There is, however, one additional and notable Federal effort.

President Franklin D. Roosevelt signing the Social Security Act, August 14, 1935. Titles III and IX of this act provided the basic framework for the Federal-State unemployment insurance program.

Five Federal unemployment benefit programs, all temporary, have been launched since 1944. Three were war products: Servicemen's Readjustment Allowances, provided to unemployed World War II veterans by the 1944 GI Bill of Rights; Reconversion Unemployment Benefits for Seamen, enacted in 1946 for the unemployed members of the World War II Merchant Marine; and Unemployment Compensation for Veterans, adopted in 1952 for unemployed Korean War veterans.

The remaining two temporary Federal programs were recession products. The 1958 Temporary Unemployment Compensation Act gave States a choice whether or not to elect the extended benefits for their exhaustees, and required States that elected such participation to repay the cost to the Federal Government. The 1961 Temporary Extended Unemployment Compensation Act offered the States no choice; it was applicable throughout the United States and was financed by a temporary increase in the Federal unemployment tax rate.

However one evaluates the impact of these temporary programs on the Federal-State partnership in unemployment insurance, it seems clear that through them (a) this country has recognized that the Federal Government has an obligation to pay unemployment benefits under certain circumstances, and (b) we have devised a means of meeting that obligation.

The five programs have differed substantially in specific purposes and provisions. All five have

illustrated, and the permanent UCFE and UCX programs continue to demonstrate, the practicality of the use of the States as the Federal Government's agents in administering such benefits. In general, both the temporary and the permanent programs have tended to make the State law's terms and conditions of benefit payment apply to the Federal beneficiaries; this has kept the protection afforded below desirable standards but has been an inevitable and practical consequence of the Federal-State partnership.

The two temporary Federal extended benefits programs have also stimulated State legislation in a few States to provide "triggered" programs of extended benefits. In California, Connecticut, Hawaii, Idaho, Illinois, North Carolina, Pennsylvania, Puerto Rico, and Vermont, additional weeks of benefits may be paid when unemployment reaches a prescribed level.

Evolution of State Legislation

In all other respects, however, the progress of unemployment insurance since the Social Security Act was passed must be measured by State legislation that does not derive from Federal enactments.

Duration of benefits.—During the years 1935–65, the greatest improvement made in the protection afforded by unemployment insurance has been in the extension of the number of weeks for which benefits would be available.

By the end of 1945, 21 States provided benefits for as long as 20 weeks. Eleven States provided for greater duration, including 5 States whose maximum was 26 weeks of benefits.

Ten years later, only 3 States provided a maximum duration of as little as 16 weeks; 26 States had maximums of 26 weeks; and 1 State had a 30-week maximum.

As of today, only Puerto Rico has a maximum duration of as little as 12 weeks. South Carolina's and South Dakota's maximums are 22 and 24 weeks, respectively. The remainder of the States have maximum durations of 26 weeks or more. The longest maximum duration is Oklahoma's 39 weeks.

Maximum durations available under a State law do not of themselves tell the whole story. In most States, duration of benefit entitlement varies, depending on the worker's base-period wages. Some States, however, have uniform duration for all eligible claimants. Starting with only 1 State (Ohio) in 1937, the number of States with uniform duration grew to 16 by 1945 but has been declining slowly ever since. At present, only 8 States provide uniform duration and, with the exception of Puerto Rico, in each case it is 26 weeks.

Despite the decline of uniform duration provisions, the average potential duration of eligible claimants has risen with the increase in the duration maximums provided by law. This potential was 19.8 weeks in 1946, and 24.2 weeks in 1964. Yet this has not been enough to cover the length of unemployment experienced by substantial numbers of claimants.

There have been only 6 years since 1945 in which fewer than a fourth of all unemployment beneficiaries exhausted their benefit entitlement—1951–53, 1956–57, and 1964. In no year during this period did the ratio of exhaustees go below a fifth of all beneficiaries. In 5 years—1946–47, 1950, 1958, and 1961—more than 30 percent of beneficiaries used up their benefits before finding a job. In short, the protection that is available simply is not sufficient for at least 9 to 10 percent of the unemployed.

Benefit amounts.—The maximum weekly benefit amount paid at the outset of the program (usually $15) was over 50 percent of the average weekly wage in covered employment in every State but Alaska. In 22 States, these 1939 State maximums were more than two-thirds of the State's average weekly wage. Since then, the States have failed to raise their maximum weekly benefit amounts high enough and fast enough to keep pace with the average weekly wages in covered employment.

Only eight States in 1949, and only nine in 1959, paid basic weekly maximum benefits as great as half the State's average weekly wage. The 1959 figure included six States that had abandoned a flat dollar maximum in favor of a regularly computed percentage (usually 50 percent) of the State's average weekly wage in covered employment. By 1965, an additional 10 States had modified their laws to include such provisions, including four States which had amended their laws only this year.

Notably, the States whose laws provide for these "variable maximums" are small or medium-size States; altogether they account for less than 12 percent of the covered workers. In more than two-thirds of the States, the basic maximum weekly benefit amount continues to be less than half of the State's average weekly wage. In 17 States, the

maximum is less than 40 percent of the State's average wage.

Labor-force attachment.—The original unemployment insurance system was designed for individuals who had had steady jobs prior to becoming unemployed. Early in the unemployment insurance program, most States either adopted flat dollar requirements of the wages needed to qualify for benefits, or used formulas based on the individual's wages in his highest calendar quarter of earnings. Efforts to update such requirements have tended to lag behind increases in wage levels. As of the beginning of 1965, 13 States had restated their qualifying requirements in terms of a specified number of weeks of employment, but of the remaining 39 States the median State had a minimum qualifying requirement of only $375 in base-period wages.[1]

Consequently, there has been a proliferation of special "class" disqualifications (including, for example, students, pregnant women, and pensioners) designed to root out of the system beneficiaries of doubtful labor-force attachment. These special "class" disqualifications have, in turn, resulted in a tendency toward mechanical classification of claimants instead of the claims examiner carefully scrutinizing each and every claimant's availability for work.

Financing.—When the Social Security Act was passed, the Federal unemployment tax applied to total payroll for covered employment. In 1939, the Federal taxable wage base was reduced to the first $3,000 paid to a covered worker. The States adopted this change and it made little practical difference because the $3,000 taxable wage base then represented 98 percent of all wages in covered employment. Since 1939, average weekly wages in covered employment have gone up from $26.15 to a 1964 level of $106.48. The Federal taxable wage base has, however, remained at $3,000 and now represents only 54 percent of all covered wages.

Twenty States have raised their taxable wage bases above $3,000. But the wage bases of most States still remain below $4,000. Thus they are taxing less than 70 percent of total covered wages.

The significance of these figures is that high-wage employers pay a substantially smaller percentage of payroll in unemployment insurance taxes than do low-wage employers. With a $3,000 tax wage base, an employer with a 2-percent tax rate pays an actual 2 percent of payroll if each of his workers is paid $3,000 in annual wages. But with annual wages of $6,000 for each of his employees, his 2-percent tax rate becomes only 1 percent of his payroll.

[1] Editor's Note: For purposes of unemployment insurance program operations, the District of Columbia and Puerto Rico are counted as States.

A Look Ahead

What have we learned in 30 years' experience with unemployment insurance?

One fact that was not faced in 1935 has become increasingly apparent, namely, that there are three groups of unemployed: The "beginners" (18–25), who possess little or no experience and no accumulated rights under unemployment insurance; the "regulars," those employed more or less regularly over a period of years, for whom the existing UI system was designed; and the "long termers," many of them older workers and most of whom have been displaced by technological advance and occupational obsolescence.

Second, we have learned, as a people, that unemployment insurance is just as essential to the American way of life in the urbanized industrial society in which we now live as is the community hospital or the fire department. The need for continued availability of benefits for the unemployed and additional purchasing power in times of recession is now fully accepted.

Third, the sharing of responsibility for the financing and administration of this institution between the Federal and State Governments is an accepted fact. There will be changes as they may be required to broaden the protection and render more effective the operation of the system. And if the States will not persistently improve the protection afforded, there will be pressure for more Federal action.

But there is no apparent reason to expect that there will be efforts to abandon the Federal-State partnership in operating the American unemployment insurance system.

Fourth, we have learned that the existing system can and should be strengthened in these ways:

A total of about 5.4 million employees of small firms, nonprofit organizations, and farm workers employed by large agricultural establishments should be covered by the State unemployment insurance laws. In addition, there is no logical reason that justifies the States continuing to exclude State and local government workers.

The Federal Bureau of Employment Security should set standards to assure that individual claimants receive

benefits approximating half their weekly wages, at least up to a maximum benefit of two-thirds of a State's average weekly wage. Employers in States not meeting such requirements should not receive a full Federal tax credit.

Standards should also be established as to qualifying requirements for benefits. These will best be stated in terms of weeks of employment rather than dollar wage requirements. Such standards will furnish a basis for reversing the long-term trend of trying to police benefit eligibility by relying on harsh and unreasonable disqualifications and neglecting scrupulous application of the availability for work requirements.

A system of Federal unemployment benefits should be established. For the "long termers" who have exhausted State benefit rights, benefits should be available for an additional period of weeks under a permanent federally financed program. Benefits should be paid only to individuals with a long attachment to the labor force and to those who agree to receive counseling and, where appropriate, to take training.

The tax base for unemployment insurance taxes should be raised. In 1939, the coverage of the first $3,000 represented the coverage of 90 percent or more of all wages paid to covered workers. If the wage base were now raised to $5,600 it would cover 80 percent of covered wages. The wage base should be raised at least to that level, and preferably to $6,600 or $7,200.

The Federal tax rate should be increased to provide funds to meet the costs of increased benefits and increased administrative costs. The increase required would not be great, perhaps half a percent. This cost would best be borne by employers, by the workers themselves, and by the entire taxpaying public.

These improvements in the Federal-State system will enable it to meet much more adequately the needs of the relatively regularly employed workers when they become unemployed. The provision of extended Federal unemployment benefits will help to meet the need of the "long termers." But in the light of today's needs, there is lacking the correlated system of "public employment" that was originally envisioned 30 years ago.

Unemployment Insurance in Our Economy

Stanley H. Ruttenberg *

THE American unemployment insurance system was initiated in the midthirties when the Great Depression distressingly revealed the grave risks for wage earners of being dependent upon a job in a market-oriented economy. The depression pointed to the need for effective social programs to lessen the burdens of unemployed workers. Unemployment insurance was designed to help deal with the loss of income that individual workers and their families face as a result of temporary unemployment. It was recognized that for these workers the problems resulting from such a loss could be catastrophic, even if there were little unemployment throughout the Nation as a whole.

Unemployment insurance helps unemployed people maintain their dignity and self respect. Benefits paid to unemployed workers from an insurance fund and as a matter of right help to protect them and their families from the embarrassment of seeking welfare or charity. Without any income during unemployment many workers would be in dire need. The fact that unemployment benefits are available provides a measure of security to unemployed workers and also to employed workers who often wonder what they would do should unemployment strike them. Unemployment insurance makes it possible for unemployed workers to look around for jobs suited to their training and experience rather than take the first jobs available.

Although the basic purpose of unemployment insurance is to provide insured unemployed workers with a partial compensation of wage loss during periods of involuntary unemployment, in so doing it also plays a significant role in our economy. That this article concentrates on the economic aspects of unemployment insurance reflects no intent to minimize this basic program mission.

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Some indication of the magnitude of unemployment insurance in the economy is given by the following data. In 1964, aggregate UI tax collections (including reimbursements to the States for benefits paid to unemployed Federal employees and ex-servicemen) amounted to $3.2 billion. During the same period, $2.7 billion in benefits was paid to 5.8 million beneficiaries under the State and Federal programs. The growth of tax collections and benefit disbursements over the years reflects the continued expansion of the economy and improvements made in the UI program. From 1936 to May 31, 1965, $41.9 billion in contributions was collected under the State programs alone, and $38.7 billion was paid in benefits. Although unemployment compensation plays a significant role in tiding workers over periods of unemployment, the existence of the program has important effects on the economic system; in turn, developments in the economy help determine the role of unemployment insurance.

How UI Affects the Economy

Maintenance of purchasing power.—One clear effect of UI is that it helps to sustain purchasing power in local economies and in the economy as a whole. The UI system provides the vehicle through which the funds set aside when workers are employed are used to provide income when they become unemployed. This redistribution of income has an immediate positive effect on the economy. Since benefits paid are used as intended—to meet current and basic living expenses—they have an impact on the economy exceeding the amount paid. Very little or none of this income is retained as savings. Benefit checks are cashed and spent immediately. This flow of income into the economy induces further spending which helps stabilize consumer income and, in turn, the economy as a whole.

Economists often refer to UI as a "built-in" economic stabilizer, and it is recognized that, as such, it generates economic effects that tend to counteract prevailing tendencies in the business cycle, especially during the downturn and recovery stages. The built-in feature of the UI system means that it responds automatically to changing economic conditions and does not rely upon the use of discretionary powers. It should be pointed out, however, that UI is what it was designed to be—insurance. Stabilization is one important byproduct of the primary purpose of providing protection to workers against the specific risk of unemployment.

The effectiveness with which UI can operate as a counter cyclical device, or, to quote Prof. Paul A. Samuelson of the Massachusetts Institute of Technology, "lean against the prevailing economic winds" is directly related to changes that occur in the level of income and to the way in which income levels are affected by changes in total contributions and benefits paid. The higher the proportion of income levels the taxes and benefits are, when collected and when paid, the greater the effects of the UI system on different stages of the business cycle.

The automatic feature of the UI system is inherent in the payment of benefits to eligible unemployed workers. As a result, soon after unemployment occurs income is automatically released into the Nation's income stream, offsetting in part that which is lost because of unemployment. This valve is shut off when workers are reemployed or no longer draw benefits.

A further indication of the potential and effectiveness of UI as an anti-cyclical device is demonstrated by the role it played during recent recessions to help restore prosperity. During 1961, a recession year, a total of $4.4 billion in State or Federal UI benefits was poured into the economic stream, of which $567 million was in Federal extended benefits. In 1962, a more prosperous year, the total of all benefits paid declined to $3.1 billion. In 1958, another recession year, a total of $4.2 billion in all benefits was paid, of which $398 million came from temporary extended benefit programs compared with the 1957 total of $1.7 billion paid in benefits under State programs alone. The responsiveness of unemployment insurance to changing economic conditions is shown by the fact that, in the recession years 1958 and 1961, UI payments were as high as 19.9 percent and 15.7 percent, respectively, of all social insurance and related payments—but were down to 11.0 percent in 1957 and 10.8 percent in 1962, when economic conditions were more prosperous.

The effectiveness of UI in combating declines in economic activity is directly related to the adequacy of benefits paid or to the amount of wage loss replaced—indicated by comparing benefits paid with previous earnings of eligible unemployed workers. During recession year 1961, average weekly benefits paid amounted to 36 per-

cent of average weekly wages in covered employment. If the average wages of beneficiaries were the same as the average wages of covered workers, then, during a week of unemployment when benefits were paid, slightly over one-third of the lost wages of eligible covered workers were replaced by UI benefits. However, Professor Lester of Princeton University concludes that, on the average, benefits paid during the period 1948–61 were only about 20 percent of wage and salary losses from total unemployment.[1] In any event, benefits paid to insured workers are a smaller percentage of previous earnings now than they were in earlier years. In 1939, benefits replaced 41 percent of wages in covered unemployment.

The full effects of unemployment insurance in offsetting declines in economic activity go somewhat beyond the dollar value of benfits paid to unemployed workers or their multiplying economic effects. By helping to sustain workers while they are unemployed and seeking work at their already attained wage levels and generally to maintain purchasing power and consumer demand, UI also helps sustain wage rates.

Labor-use effect.—The conditions under which unemployed workers become eligible for benefits generate effects that have significance for the economic system. The "able and available" and "registration for work" requirements of the State laws and the fact that the benefit amount is usually no more than 50 percent of a worker's usual earnings (and frequently less) combine to help assure the worker's continued interest in seeking employment. The "suitable work" provisions also help preserve the productivity of the labor force by making it unnecessary for unemployed workers to abandon their job skills by accepting work at lower ability and wage levels.

Economic decision making.—The existence of UI can be a factor in economic decision making. Employers who are mindful of the effects of layoffs on their unemployment insurance costs take these costs into consideration when deciding upon whether to retain or to furlough workers. Such costs then can be a factor in stimulating employers to seek ways and means of leveling out labor requirements. On the other hand, some employers see an advantage that UI, along with other fringe benefits, offers in maintaining a trained and experienced local labor force and for that reason look favorably upon the payment of benefits to workers who might otherwise decide to look for work in another job market area. In the minds of these employers, the cost of unemployment insurance must be weighed against the cost of recruiting and training new workers.

UI also affects the decisions of workers as consumers. The protection UI provides against complete wage loss during unemployment is a source of confidence to employed workers. The strength of consumer credit and installment buying depend upon continuity of worker income. Decisions on whether or not to change jobs or to seek employment in another State may often depend upon workers' eligibility for UI benefits. To these considerations is added the measure of confidence businessmen gain from the contribution that UI makes in helping to maintain effective consumer demand.

UI has also come to play a role in the economic decision making of Government. UI taxes are a necessary part of the cost included in bids on Government contracts. Decisions to cancel a Government contract or to close a military establishment are now made against a background of knowledge that UI benefits are available to help cushion worker adjustments.

How the Economy Affects UI

Coverage.—Changes in the economy give rise to trends in the labor force which affect the number and kinds of workers with UI protection. The growth in the working population results in an automatic increase in the number of employees whose employers are subject to the coverage provisions of the UI laws. Some of the increase in covered employment is attributable to amendments to the laws increasing the number of employers subject to the tax. These factors account for the increase in coverage from 21 million wage and salary workers in 1938 to 48.4 million in 1963.

Labor-force attachment.—Eligibility for unemployment compensation is based upon recent work and wages in covered employment that provide evidence of sufficient labor-force attachment to justify the payment of benefits. Changes in the composition of the labor force and changes in job requirements are significant for UI in that they magnify the difficult problem of determining who should receive benefits and for what period of time. For example, the problem of testing the

[1] Richard A. Lester, *The Economics of Unemployment Compensation* (Princeton, N.J., Princeton University Press, 1962), p. 13.

availability of older workers is now important, but becomes more difficult as technological changes make their job skills obsolete. Changing economic conditions are reflected in the numbers of disqualifications from benefits that are made. In periods when jobs are plentiful, disqualifications are likely to increase and be more severe than when jobs are scarce.

Financing.—Economic conditions affect the cost of financing UI. The three basic benefit cost components—the average weekly benefit amount, the volume of compensated benefit claims, and the average duration for which benefits are paid—are all direct responses to economic conditions. Weekly benefit amounts received by unemployed workers are wage-related and are influenced by developments in the economy that affect wages. Their averages reflect not only State benefit formulas but also the mix of high- and low-wage claimants. The number of new insured claims and the average duration for which benefits are paid mirror the length and depth of unemployment among insured workers.

A claimant's unemployment insurance weekly benefit amount is generally based upon his total earnings in covered employment, but the employer's contributions to finance the payment of benefits are based upon only a legally taxable portion of his total payroll. Since the latter is a fixed dollar figure in every State but Hawaii, the result is that in an expanding economy the gap widens between rising wage levels and the taxable wage base.

Payroll tax financing of UI has led to some concern whether improvements that would require increased taxes might contribute to a "fiscal drag" in that they might divert money that could be used by private industry for economic growth. Appreciation of the magnitude of the problems involved is helpful in reaching a realistic appraisal of such fears. In 1964, Federal and State unemployment taxes represented less than 1.5 percent of total payrolls in covered employment. Program improvements currently in view could increase the unemployment tax total to a figure somewhat under 2.0 percent of total covered payrolls. In 1964, benefits paid were more than two-thirds of the total Federal and State unemployment taxes. Even assuming, at the 2.0 percent tax level, that benefits paid equaled only 60 percent of taxes, the result would be an increase of only 0.3 percent of total payroll (in a year like 1964) in the excess of taxes over benefits. This would seem, at most, a very minor impact on fiscal drag.

Also, it should be recognized that the fiscal-drag concept has implications that money raised in taxes is "removed" from the economy and diverted so that it cannot stimulate economic expansion. To the extent that unemployment taxes are promptly expended as benefits, obviously this is not the case since, as pointed out, benefits are immediately spent by unemployed workers to meet their family needs. The excess of unemployment taxes over benefits that result in prosperous years, however, does not result in sterile money either. That excess is deposited in trust accounts which are invested in Treasury bonds and thus find their way rapidly into Federal expenditures for goods and services. These, too, may have a sustaining, if not a stimulating, effect on the economy.

Weekly benefit amount.—Increased prosperity and rising wages and living standards affect the weekly benefit amount. The problem posed for UI as a result of these trends is the extent to which higher wages paid to workers should be reflected in the amount of benefits they receive when unemployed without affecting their incentive to seek work. In reality, this deals with the role of UI in helping to maintain living standards of unemployed workers.

The benefits unemployed workers receive are determined by the wages they earned while they were employed and reflect increases in productivity or prosperity to the extent that increased prosperity is reflected in the amount of wages paid. However, because benefits paid to unemployed workers are based upon a wage-related scale with legally prescribed minimums and maximums, the effect is that very low paid workers receive a higher proportion of wage loss compensation than higher paid workers. Developments in the economy point to the need for a method of calculating maximum benefits for the unemployed that will ensure more nearly adequate benefits for all claimants—with greater equity for higher paid workers—and one that will permit the rising prosperity of the economic system to be reflected in the amount of income that unemployed workers receive.

Duration.—UI is intended to provide income through a temporary period of unemployment. This has usually been interpreted to mean a duration sufficient to enable the great majority of insured workers to find suitable work before ex-

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Secretaries of

William B. Wilson
1913–21

James J. Davis
1921–30

William N. Doak
1930–33

Frances Perkins
1933–45

Lewis B. Schwellenbach
1945–48

es of Labor

W. Willard Wirtz
1962–

Arthur J. Goldberg
1961–62

Maurice J. Tobin
1948–53

Martin P. Durkin
1953

James P. Mitchell
1953–61

hausting their benefit rights. Economic conditions affect the adequacy of duration provisions or the length of the period of unemployement during which some form of income maintenance is required. The average number of weeks of unemployment compensation paid is shorter during periods of normal economic activity than in periods of economic decline. In the past, concern for workers who exhausted their regular unemployment benefits during recessions resulted in the establishment of two Federal temporary programs which extended benefits for them. Some State laws now have provisions for extending benefits when unemployment rates reach certain percentages in their States.

The long-term unemployed.—Developments in the economy are now producing a large number of workers who remain unemployed for extended periods of time. Since World War II, despite improvements in the benefit duration provisions of State laws, the annual percentages of beneficiaries who exhaust their benefits before they are reemployed have shown this to be a growing problem. After each of the post-World War II recessions these percentages have dropped, but they recede more and more slowly and to higher residual levels. In 1964, over 1.4 million beneficiaries exhausted their benefits.

It seems clear that the fundamental economic changes reflected in this increasingly significant problem present a different set of premises for UI from those upon which it has been based up to now. Very long-term unemployment—more than 26 weeks—can hardly be considered an abnormal and recession-related phenomenon when almost one out of every four unemployment beneficiaries use up their benefits in a prosperous year like 1964.

It would appear that extension of UI to cover unemployment beyond 26 weeks must be seriously considered. In doing so, account must be taken of the known difficulties of establishing the continued labor-force attachment of many of the very long-term unemployed. Similarly, greater emphasis must be expected, in such extensions, on positive steps that go beyond income maintenance and are more aggressively directed toward assuring the employment of the long-term unemployed.

The increased emphasis on manpower programs designed to assist the long-term unemployed, and others who experience difficulty in the job market, has resulted in a question as to what role UI should play in an active manpower policy. Some have asked rather pointedly whether the UI program, with its wage-loss replacement feature, actually serves as a disincentive for persons in the labor force. In many respects, the question as to the role of the UI program in an active manpower policy turns on the matter of philosophy as to the concept of what unemployment insurance is or what risk of unemployment was intended to be covered in setting up the system. Sound policy would appear to require that the UI program actively assist the Nation's manpower goals by encouraging those UI claimants who lack skills or whose skills are obsolescent to undergo required training. Yet to date only 22 States have amended their laws to pay UI benefits to claimants enrolled in State-approved training or retraining courses. Until all States permit such claimants to continue drawing benefits while in training, the employment security program will continue to present a picture of a program that is at odds with itself, with UI discouraging claimants from taking needed training and the employment service urging and referring them to training sources.

Improving the UI Potential

The potential of the UI program as one means of helping to restore the economy to prosperous levels during periods of economic decline will be greatly enhanced as more of those workers now unprotected are covered and as the weekly benefit amounts and the periods during which benefits may be paid are increased.

The Administration's proposed Employment Security Amendments of 1965, now pending before the Congress, present an opportunity to attain major improvements in the effectiveness of unemployment insurance to assist the individual worker and to advance the growth of the Nation's economy.

Unemployment Insurance and Manpower Policy

Daniel H. Kruger *

One important objective of public policy with respect to manpower is to provide security against the hazards of unemployment. The Federal-State unemployment insurance program was designed to provide a measure of economic security for wage earners in covered employment through partial compensation for wage loss incurred through involuntary short term transitional unemployment.

Unemployment insurance is, therefore, an important aspect of manpower policy in a job economy. *Job economy* is more than a descriptive phrase. Our economy has, in fact, become a job economy. The overwhelming majority, over 90 percent, of the Nation's total labor force make their living through having a job. This has not always been the way Americans have earned their livelihood. In earlier periods in the Nation's history, a substantial proportion of the people worked on the land. At a later time, millions of persons were, in effect, "working for themselves" in self-owned professional, business, and service activities.

As our society evolved into a highly urbanized and industrialized economy, self-employment declined; and working as an employee in private enterprise and in government increased significantly. The *job* became the most important economic activity in the lives of most Americans because it provided the central means for earning income.

It is the *centrality* of the job which is the distinguishing characteristic of the job economy. Consequently, preparing for a job, getting, holding, and separating from a job, having income when laid off to tide one over between jobs, and finding another job to replace the one lost are crucial matters for large numbers of American workers.

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UI in the Job Economy

Of particular concern here is the role of unemployment insurance in the job economy. The evidence is clear as to the economic impact of unemployment insurance. During the 19 years 1946 through 1964, $34.9 billion in benefits was paid to claimants. During the same period 104.2 million first payments were paid to claimants in their benefit years. Unemployment insurance provided the first line of economic defense for these unemployed workers. The income maintenance features of UI are well known but there is another dimension to UI and this is its impact on manpower. The benefit amounts and duration, the application of eligibility requirements, and the disqualification provisions of the State laws all affect workers in covered employment. The manpower dimensions of UI, however, have not been given sufficient attention and study. In this article the implications of UI for manpower development and utilization are discussed briefly.

UI and Worker Mobility

The weekly benefit amount and duration of benefits affect workers' behavior in the job economy. The degree of impact may differ as between claimants who are primary and those who are secondary wage earners. Primary wage earners, on the whole, must work if they are to meet the necessary needs of their families. Few primary wage earners can afford to remain unemployed and draw benefits that are half and usually much less than half their customary weekly wage. On the other hand, secondary wage earners defy such simple analysis. The tendency is strong to think of secondary wage earners as being all of one kind —loosely attached to the labor force. This is not the case. Secondary wage earners vary considerably as to the pressing economic and other motivations that prompt them to seek and retain employment.

If, for example, they are seasonal workers, their benefits may be of such duration that they can draw benefits until they are able to return to their old jobs when the new season begins. However, the duration of seasonal workers' benefits may be short due to their limited employment and earnings and other limitations on payment of benefits to seasonal workers in effect in 20 States.

UI may also affect the mobility of certain groups of secondary wage earners with loose attachment to the labor force, especially those working in the canning industry and in resort areas. UI appears to strengthen the attachment of these workers to their employers. It has been reported that some employers in these industries use UI benefits as a means of retaining from year to year a group of workers who may only want to work part-year and who can draw benefits during the off season.[1] These workers, in effect, rely on their benefits as a regular supplementation to their wage income. Most of these employers are usually located in areas in which alternative employment opportunities are limited in the off season. Claimants, therefore, may be considered available for work although there is little opportunity for them to find work in the area.

While UI may tend to impede mobility among certain groups of seasonal workers, it facilitates, to a degree, labor mobility in other segments of the labor force. The mechanism used is the Interstate Benefit Payment Plan adopted as the result of a voluntary agreement among the States in 1938. This unique agreement was not provided for in the unemployment insurance provisions of the original Social Security Act nor as the result of any subsequent amendments. Under this agreement, eligible unemployed workers who live in one State but work in another, or who move to another State to seek employment, can receive unemployment benefits from the State in which they established their right to them.

Eligibility for benefits is determined in accordance with the laws of the liable State in which benefit rights were accumulated. The State in which the claimant resides and from which he applies acts only as the agent in processing the claim. In the period 1946–64, approximately 14.5 million initial interstate claims (indicating new spells of unemployment) were filed under the Interstate Benefit Plan. This total represents about 6 percent of all initial claims filed during that period.

There are no known studies available as to whether the individual State UI laws impede or restrict mobility. Some recent State legislation and the complexities of interstate claims processing are two factors which may tend to restrict mobility. With respect to the first factor, Alaska, Wyoming, and Ohio reduce the weekly benefit amount if the claimant moves to another State to job hunt; these laws may very well dampen a claimant's desire to cross State lines in search of a job. The second factor—the administration of the interstate benefit plan—in itself may inhibit mobility. Due to the time lapse between mailing benefit applications from an agent State to the liable State, plus additional paper work, payments of interstate claims may lag many weeks behind payment of intrastate claims.

The effects of the mobility stemming from the Interstate Benefit Plan, however, cannot be properly evaluated. Some workers undoubtedly move in search of another job. Others may want to be near their families and will return to their former jobs when and if recalled. The latter group may not strenuously search for work because of the lack of suitable employment opportunities in the area to which they have moved.

One other feature of the State UI laws which may act to impede mobility is that a strict interpretation of the statutory limitation on what constitutes "good cause" for leaving work eliminates consideration of many personal and economic reasons for leaving one job in search of another, however valid they may be for the individual. Such interpretations may discourage a worker's initiative in improving his economic status by postponing or denying him benefits. If a worker is aware that he may be disqualified for trying to get a better job, he may be reluctant to make a change. Many States, in making determinations in such instances, apply the criteria of suitability of the job for the claimant as to whether it would have been good cause for him to refuse the job in the first place because of substandard pay or working conditions, as well as to insure that the UI program does not exert a downward pressure on existing labor standards. On the other hand, many other States do not apply these standards possibly from the fear that employed workers will quit work and use the unemployment insurance program to finance the improvement of their job situations.

[1] Richard A. Lester, *The Economics of Unemployment Compensation* (Princeton, N.J., Princeton University Press, 1962), p. 50.

UI and Labor-Force Attachment

There are other features of UI which affect job market behavior, especially the eligibility requirements and disqualification provisions. Their interpretation and application by State administrators and State courts represent, in fact, a code of behavior for all workers in covered employment in that State. Each State therefore, has evolved over the years, a comprehensive body of policies which directly and intimately affect manpower. To receive benefits the worker must measure up to this code of behavior. Failure to do so means that the worker will be denied or disqualified from receiving benefits. It may be said that the Federal-State unemployment insurance program, in terms of numbers of workers involved, is one of the most significant aspects of the Nation's manpower policies. For example, 2,139,430 nonmonetary disqualifications affecting insured unemployed workers were made under State laws in 1964, while the number of trainees enrolled under ARA and MDTA training programs totaled 77,633.

In the process of determining benefit eligibility the State UI programs provide important, albeit incomplete, information about worker behavior in the job economy. To qualify the claimant must meet certain criteria, e.g., must have sufficient employment in covered work to evidence a continuing attachment to the labor force. This criterion helps to identify the degree of the worker's firm or loose attachment to the job market. An examination of his work record, family status, and occupation can indicate this degree of attachment. This concept has been a perennial source of controversy because there are no precise measurement guides.

Moreover, both the dynamics of the job economy and the changing characteristics of the labor force have affected the UI labor force concept. For example, the hours of work per week for certain groups of workers, such as the electricians in New York City, have been substantially reduced. Although these electricians work only 25 hours a week, they are considered full-time workers. The growth of part-time workers—women, students and retired workers—has been significant in recent years. These workers may be viewed as having a loose attachment to the labor force but nonetheless can meet the employment and earnings requirements of many State acts. However, the availability provisions of the State laws serve to disqualify those who unreasonably limit their employability. Also, some 33 State laws contain provisions reducing, limiting, or otherwise disqualifying claimants from benefits during those weeks in which they also receive OASI benefits or benefits from employers' pension funds.

Attachment to the labor force means that the claimant must be able and be available for suitable work. If he does not stand ready to do so during the week for which he filed his claim, he is ineligible for benefits. Under this concept, workers, generally speaking, cannot retire voluntarily to a state of idleness and expect to collect benefits. In theory, UI should serve as a motivating force in stimulating the worker in his job search. As noted above, this is not always true for all workers, e.g., part-time or part-year workers. For these claimants the application of the tests of availability which disqualifies those who restrict their hours and days of work, as well as kinds of work, is required.

Testing the availability for work of certain categories of workers presents problems, particularly for older workers. Rapid changes in the occupational structure of the job market are forcing older workers out of lifetime jobs. These workers have difficulties finding employment either because of age discrimination or obsolete skills. They meet some of the availability criteria, that is, being able to work, willing to work, actively seeking work, but are difficult to place, and consequently they are not candidates for available or existing jobs. If they are not candidates for the available jobs, what does this mean in terms of attachment to the labor force? Of course, training programs represent a possible solution to make them eligible, as well as programs to reduce discrimination because of age.

Hard-to-place workers, it is contended, are penalized by the provision that they have to seek work actively if they are to qualify for benefits. These workers, who week-in and week-out have to search for work without any success, can and do become discouraged. They may just stop looking for work. By definition, they sever their attachment to the labor force and become a part of the invisible unemployment.

The available work must be suitable. State agencies consider many factors in evaluating this proviso, e.g., experience, prior earnings, physical fitness, health, training, and location of the job. Of particular importance is the fact that wages, hours, and conditions of employment must not be

substantially less favorable to the worker than those prevailing for similar work in the locality. This mandatory standard was introduced in the basic legislation to prevent the UI system from exerting downward pressures on existing labor standards. Eligible workers are not obligated to accept any kind of job. The framers of the original act also had another objective in mind. It was their intent that efforts should be made to conserve the skills of unemployed workers. They reasoned that if workers were receiving benefits, the pressure on them to take jobs in which they would lose their skills, and the status associated with these skills, would be reduced.

In many instances, the preservation of workers' skills has little significance today. The relentless wave of technological improvements in the postwar period has accelerated skill obsolescence. Workers, especially older workers, who have lost their jobs and whose prospects for being recalled at their old jobs are dim may not possess current marketable skills. They are often unable to compete realistically in the job market because of lack of needed skills. They may need retraining or may have to scale down their expectations as to what they consider suitable work. Similarly, the long-term unemployed may also have to make needed and realistic adjustments to a job market in which they have actively sought work for more than six months without success. In such cases, the definition of suitable work becomes concise. Without its preceptive application, UI may keep alive a false hope and may postpone critical reassessment of what needs to be done in order to get a job.

The dynamics of a rapidly changing job market have underscored the importance of training and retraining activities. The Federal Government in enacting such legislation as the Area Redevelopment Act and Manpower Development and Training Act has recognized that training programs are essential if certain workers are to find a job. The State agencies, in both their employment service and unemployment insurance divisions, are very much involved in training activities. Despite the growing interest and emphasis on such programs, the State UI laws, on the whole, do not encourage claimants to participate in them. The reason for the lack of interest appears to be interrelated with the available for work criteria. Up to now only 22 States have amended the provisions of their laws regarding availability for work during periods of training or retraining. Under these provisions, an otherwise eligible claimant is deemed available for work while he is participating in a training or retraining program approved or recommended by the State employment security agency.

There is other evidence which suggests the present UI laws are not training-oriented. When the State acts were passed nearly 30 years ago, the Social Security Board noted that one of the functions of their unemployment insurance systems should be to "promote regularization of employment." The Board indicated that one of the ways by which this could be accomplished would be "to encourage and assist in the adoption of practical methods of vocational training and retraining." Until recently, the States did almost nothing along these lines and few training programs were developed by State agencies on their own initiative.

Employment Stabilization Efforts

At the inception of the unemployment insurance program, stabilization of employment was considered a primary objective. The assumption was that employers have a substantial degree of control over unemployment. Thus an incentive was provided through differential tax rates to encourage employers to stabilize employment. All State laws (except Puerto Rico's), now have an experience rating system by which individual employers' contribution rates are varied from the standard rate based on their experience with unemployment risk. While stabilization of employment was a desirable objective, its soundness rested on the extent to which the individual employer is able to regularize his employment.

It is now questionable how much of an incentive experience rating has given employers to stabilize their employment, especially in view of cyclical forces and technological changes. Employers have more powerful incentives, such as higher profits, to stabilize employment whenever possible. Moreover, the narrow range on tax rates has perhaps diluted the appeal of experience rating for some employers.

Stabilization efforts appear to be more attractive and practicable only for large companies which can produce for inventory or can move workers to various jobs. This is another limitation to stabilization devices which have important

implications for the job economy. As a result of increased costs of fringe benefits coupled with the costs of unemployment insurance, there are some employers who prefer to have their employees work overtime in order to avoid adding workers for temporary jobs. Undoubtedly their decision to have their employees work overtime is related, in part, to their desire not to injure their experience rating.

The low minimum base period earnings requirement in some States makes it possible for temporary or part-time workers to be employed for a short time in covered employment to acquire the needed wage credits to be eligible for benefits if their work is terminated. Thus if these workers are hired and then laid off, the employers' experience ratings would be adversely affected, and their contribution tax rates would be higher.

Other UI Effects on Manpower

From the employers' point of view, UI has affected manpower in a manner not contemplated in the original act. UI, it is contended, facilitated the introduction of technological improvements. Evidence to support this contention is not available. It does seem reasonable, however, to assume that employers could introduce the new equipment somewhat earlier as a result of unemployment insurance. In the postwar period, employers, especially the larger ones, have become more concerned with their "image." Throwing large numbers of workers out of work does not reflect favorably on the employer especially if these workers had very limited financial resources. Through the unemployment insurance mechanism, the displaced workers receive benefits. The economic dislocation and hardships resulting from the introduction of technological improvements, therefore, are somewhat softened.

Conclusion

In summary, the emphasis in the past has been focused on the income maintenance character of UI. The basic Federal legislation and subsequent State acts reflected the economic conditions and the nature and composition of the labor force existing in the mid-1930's. Conditions in the job market today have drastically changed. Much more attention by State legislators and UI administrators needs to be given to the implications of UI as it relates to manpower development and utilization. As was pointed out, UI does indeed affect manpower in many ways. Moreover, given the Federal-State system, there are 52 sets of manpower policies in practice. The need for more uniformity in the system is obvious, especially in view of the changes occurring in the job economy. Furthermore, the State acts, and their administration and interpretation, must take into account these dramatic changes. Confidence in the UI mechanism will be determined by the degree of responsiveness it makes to these changes.

Unemployment Insurance and the War on Poverty

Elizabeth Wickenden *

In the present war on poverty, as in other forms of combat, it is perhaps inevitable that, in the public mind, assistance to current casualties should initially overshadow the longrun strategies of building a stable and organized social order in which such casualties can no longer occur. Many people find it easier to grasp the need for particular forms of immediate aid to deprived individuals than to consider the need for basic reform in the institutional structures which affect us all.

Unemployment insurance, as the principal mechanism for giving the worker assured income to partially replace that which he loses through involuntary unemployment, is clearly such an institutional structure and hence a major weapon in the strategy of fighting poverty. Nevertheless, it is not surprising that its central role in any effective war on poverty has not yet received the same degree of pinpointed public attention as the crash program of innovation measures popularly known as "the poverty program," authorized by the Economic Opportunity Act to help the present victims of poverty.

One of the major purposes of the poverty program is to center the attention of all elements in our affluent society on the presence in its midst of over 30 million persons who are not sharing that affluence. This is bound to create a more critical and constructive interest in the basic institutional lags and weaknesses out of which that poverty springs. Thus, the poverty program, as it becomes fully operational, is almost certain to bring about increased attention to the values of the UI mechanism and the need to bring it up-to-date to meet current problems. This article is devoted to an analysis of this process and the challenge it presents.

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Assets of the UI System

What are the particular assets of the UI system as a major weapon in the war on poverty? There are four closely interrelated and central attributes whose values will surely be brought into sharper focus as the programs of the Economic Opportunity Act center increasing attention on the needs of the poverty-stricken in our society.

First, UI is a program of cash payments.—Our economy, like other market-oriented industrial economies, is basically money-oriented. Poverty, for virtually all individuals in the United States, must be measured in the first instance as a gap between their money income and that which is considered a tolerable level of individual or family income in relationship to the total actual or potential productivity of the Nation. Obviously, the poverty level in the United States, where average per capita income currently amounts to about $3,000 a year, is a quite different one from that in an underdeveloped country where per capita income runs below $100 a year.

Poverty is also different in modern America from what it was in the days when most people lived directly off the land, many of them in the relative isolation of the frontier. In those days individual enterprise and energetic self-reliance might well make the difference between a groaning board and constricting poverty. Today the individual must earn his livelihood from a job (and increasingly that job requires a large capital investment from a source over which he lacks control), or sell some product or service in the market, or live from the income of savings, or receive cash income from a governmental or other program of transfer payments—like social insurance.

There are many forms of nonmonetary benefit and service, especially those related to education and vocational training, that can enhance an in-

dividual's earning capacity, others that can help him make more effective use of his income, and others that either supplement his cash income or meet very particular needs not susceptible of answer in the market economy. In the final analysis, however, most people will measure their removal from poverty in terms of their cash income.

Not only is money income the measure of removal from poverty for most people, but it is also the measure of their dignity and freedom in a modern society. The framers of the Social Security Act understood very well this value of the cash payment for they had clearly before them the indignities of the grocery order, the rent payment, the community woodshed and the poorhouse. As these horrors have receded from memory, the proposers and makers of policy have sometimes been less aggressive in their advocacy of the "unrestricted cash payment" and some of their qualifications of the principle have good practical justification. But for the poor themselves, the most obvious answer to poverty is more cash in their pockets. UI is not the answer to the cash needs of all, but in the circumstances for which it is logical—interruption of wages due to unemployment—its cash payment aspect is a major asset.

Second, the purpose of UI is to prevent poverty, not to alleviate poverty after it has occurred.—While most people will gladly concede in theory the primacy of measures designed to prevent poverty, most of the popular criticisms directed against the UI system ignore this distinction. The alleviation of poverty is a welfare job with benefits based on and related to the fact and existence of poverty, more commonly designated as "need." But UI is designed to prevent poverty by assuring to the unemployed worker a predictable and objectively determined income which is related to his previous earnings but unrelated to his other assets or his need and granted as a matter of insured right. It is this attribute that gives UI dignity in the eyes of the beneficiary. The fact that the benefit payment is often too low under many of the State laws to serve in preventing poverty is a different question, discussed later. But the basic role of UI is a preventive one.

Two kinds of criticism, operating on quite different levels of sophistication, are frequently made with respect to this preventive aspect of UI. The first is epitomized by the recurrent newspaper story of the unemployed movie star arriving in his limousine to pick up his unemployment check. Here a naive or deliberate confusion is cultivated between UI, in which entitlement is based on prior work history and availability for work, and public assistance where entitlement is based on actual need. Both programs suffer from this common confusion of their purposes. A more sophisticated version of the same confusion goes something like this: "Assuming a limited amount of money available to 'help' the unemployed, any payments made by unemployment insurance to the nonpoor, in effect, make it impossible to give adequate aid to the poverty-stricken unemployed."

The first fallacy in this line of reasoning is the assumption that either the number of the unemployed or the amount available for their support is fixed. Obviously well adapted economic, educational and service policies should be capable of reducing the extent of unemployment to manageable proportions. But even assuming present levels of unemployment, payments made to the unemployed play such a role in maintaining the consumption side of the market equilibrium as to justify them as an element of production costs. In any case the cost of making payments related not to need but to joblessness is not so great as to justify distorting a preventive institution into one based on need. If one starts with the assumption that prevention of poverty is a primary social goal, no benefit conditioned on the fact of poverty can serve that goal.

Again many of the criticisms directed toward UI are based not on its basic concept of entitlement but on its inadequate implementation in terms of extent of coverage, benefit levels, and conditions of entitlement. Obviously, the answer to these problems is not a different system but a better adapted use of the existing system.

Third, a closely related value of UI is the factor of legally enforceable objective criteria for entitlement based on a previous work history.—If one accepts the premise that in the modern world individuals are largely dependent on social instrumentalities for their income, it follows that the only effective answer to a sense of helplessness on the part of individuals lies in legally enforceable rights and entitlements. This aspect of the war on poverty has been recognized by the Office of Economic Opportunity in the strong encouragement it is giving to the financing of legal services to the poor and the emphasis placed in discussions of those services on representation of individuals

before the governmental bodies controlling public benefits. It becomes especially important with respect to those benefits, like public assistance and unemployment insurance, where adverse public opinion in particular circumstances may influence the decisions and policies of administering agencies.

It is sometimes difficult for employees of governmental agencies, conscious of their efforts to protect the interests of their program beneficiaries against every sort of pressure and criticism, to recognize the extent to which the right of appeal against their decisions and representation by a lawyer or other outside advocate protects the health of the program for which they are responsible. The effective utilization of the right of appeal would also seem to require the review and consideration of State agency practices related to legal representation and assistance for UI claimants and the difficulties they sometimes encounter during the appeals process. Not only the observance of the objective rule of law guaranteeing appeal rights, but the maintenance of a fair balance between the administrative and beneficiary relationships is the essence of legal processes to protect the rights of the latter.

A legal right, however, must also be rooted in a well-accepted social value and here again the entitlement factor in UI has a basic strength in its relationship to a work history. For work is still the most generally accepted basis for income in our society, despite the interesting speculations of groups like the Ad Hoc Committee on the Triple Revolution that automation with its attendant abundance may ultimately make this an obsolescent relationship. Certainly for the present there is no question but that income from productive labor is the most acceptable basis both to the individual and to the molders of public policy. In this sense UI may be regarded as a kind of deferred return on labor already performed as well as a token of good faith with respect to the willingness of the worker to return to productive labor as soon as a job is available to him. Since his ability to perform such labor is conditioned on the productive apparatus of the country, the cost of carrying him over this period of involuntary unemployment is considered an appropriate charge against the cost of production itself, and his entitlement to benefits is still firmly based on his status as a member of the work force in good standing.

There are many precedents for legal entitlements surrounding an individual in his capacity as a worker and unemployment insurance derives great strength from its association with them. Here again the shortcomings of UI in this respect are not intrinsic to the concept. They result from failures to make the adaptive modifications required to meet changing conditions.

Fourth, and basic to all other UI values, is its ongoing institutional stability.—For not only does the mechanism of social insurance protection against the risk of unemployment assure predictable income to the individual, it also plays a major role in the total institutional structure on which the health of our society increasingly depends. Neither production nor consumption can any longer be regarded as functions based exclusively on independent individual initiative and effort. Production requires heavy investment in highly complex organizational structures which in turn rely on a market situation largely supported by the availability of expendable income. An employer cannot control his market conditions any more than a worker can control his job. Both are equally dependent on an elaborate complex of delicately balanced interactive institutional mechanisms in which the market economy is only one of many factors. In this situation the health of the market economy is as dependent on overall institutional mechanisms as is the employer for a return on his investment and the worker for a return on his labor. In simple fact, all are equally dependent on their common instrumentality, government—not to supplant their own functions but to create the institutional relationships within which all can function and thrive.

Obviously, within such a complex interaction of institutional relationships the role of government must itself be institutionalized, i.e., based on a rule of law and operational mechanisms which function with predictable continuity. It is conceivable, of course, that government might deal with the fact of individual poverty due to joblessness in a purely *ad hoc* manner with some official reaching into a common fund for the relief of destitution according to his own best judgment of the moment. But in the anarchy of such an arrangement more than the dignity and security of the worker would suffer. All aspects of economic functioning would be thrown into disarray and the rule of law which is the essence of stable government would be totally undermined. In other

words, the prospect is so unthinkable in the modern world as to make the point really unarguable: institutional continuity is a major asset in the role of UI in an effective war on poverty.

Adaptations for the UI System

But institutional continuity does not mean institutional rigidity, and this turns attention to the other half of this analysis: the changes that are needed to make the UI program a really effective instrument for fighting poverty. For institutions are like people; constant growth and adaptation are not only indispensable for effective functioning, they are the very price of survival itself. So when one comes to look at the shortcomings of UI as a weapon against poverty, one must consider first the failure of our policymakers to keep it up-to-date.

In the 30 years since the passage of the Social Security Act in 1935, our gross national product has grown from $72.5 billion to $634.6 billion in 1964; our total civilian labor force has grown from 52.8 million to 74.2 million and the distribution of that force, both in terms of occupation and geographical location, has drastically altered; changes in the relative contribution of machinery and labor to production have started a process of revolutionary change which is bound to accelerate; the educational and skill components of required labor within that production pattern are equally altered; the age and sex distribution of the work force has likewise undergone a major change; the average weekly gross earnings of a production worker in manufacturing has risen from $23.64 in 1939 to $103.38 in 1964; and the scope of both domestic and world markets has constantly widened. These are just some of the factors that have revolutionized the economic and, more specifically, the job market situation in which UI is expected to play its appropriate role.

What has been done in that 30-year period to bring about commensurate adaptations in unemployment insurance? The answer is very simple: At the Federal level, at least, virtually nothing. While its companion social insurance program of Old Age, Survivors and Disability Insurance (OASDI) has been repeatedly enlarged, strengthened, and adapted to changing needs—through wider coverage, higher benefits, and new forms of protection—the Federal-State UI system has stood virtually still except as individual States have moved ahead of the country as a whole. Fortunately, there are now signs of real hope for imminent change in the fact that the Administration has put forward major remedial proposals, now under consideration by the Congress.

What would be the effect of these proposed changes in terms of the war on poverty? Without discussing the individual provisions in detail their impact applies to five broad related areas: coverage, benefit levels, benefit duration, benefits while retraining, and the role of the Federal Government in UI.

Coverage

The criticism is made frequently that the UI system fails to protect those who earn the least, who are the most vulnerable to unemployment and hence most quickly thrown into poverty if they lose their jobs. Obviously, this is not an attribute of the system itself but of our failure to move it out of the selective coverage with which it, like OASDI, began its existence into one of more universal applicability. Assuming, as this article does, that employment opportunities almost universally derive from a total institutional complex which is subject to social and economic factors that cannot be controlled either by the individual employer or the worker, protection against the risk of individual unemployment within that complex should be universally shared. The current proposals move in that direction by extending coverage to 5 million additional workers, mainly those in small firms, in nonprofit organizations, and on large farms, and by modifying the requirements for effective coverage. The fact that many of the workers in these groups are peculiarly vulnerable to destitution is important to the war on poverty but less so, in the view of this observer, than the fact that it is a movement toward universal coverage. For only when all workers are covered will the preventive wall against poverty due to temporary joblessness be complete.

Benefit Levels

Poverty, to the jobless worker, must be measured by two yardsticks: the absolute levels of his current income and the degree to which he has suffered a reduction from his normal standard of living. By neither standard is our current UI system adequately meeting its proper role as a preventive of poverty. The war on poverty has used

a rough average of $3,000 a year for a family of four as the pivotal measure below which poverty may be assumed. Reduced to a weekly figure this would require an income of something over $57 for the elimination or prevention of poverty. But even with all the wide variations among the State benefit schedules the average weekly benefit payment in 1964 was only $35.96. There are, moreover, only seven States (at this writing) which permit unemployment insurance payments—under even the most favorable circumstances—to reach this out-of-poverty level under current maximum limitations.

For the worker who bases his standard of living on the assumption of a continuing earning power, the other measure of poverty is equally important. In turn, our very economy is based on this same worker's willingness to make long-term expenditure commitments in terms of such essentials as the mortgage on his house or rental levels established by lease, his time payments on an automobile and all the other expensive investments of modern living, his health and other insurance payments, his educational obligations to his children, and his taxes. When he loses his job, not only his personal economy but his role in the national economy is thrown into disarray unless his replacement income bears a reasonable relationship to his earnings. Yet here UI payments are not only hopelessly inadequate, averaging only 35 percent in terms of wage replacement, but are actually 6 percent lower than they were in 1939. Under the provisions of the proposed legislation all States would be required to raise the weekly benefit amount to 50 percent of the individual's weekly wage up to the State maximum, and the maximum would be set initially at 50 percent of the statewide average weekly wage, thus rectifying the situation to that extent. This is a long overdue step in the right direction.

Duration

In this hasty overview it is clearly impossible to discuss the full implications of existing duration limitations on the effectiveness of UI as a preventive of poverty. Perhaps the most significant fact to note in this area is the changing character of unemployment itself. In the UI system envisioned by the framers of the Social Security Act in 1934, it was apparently assumed that most unemployment would result from seasonal factors in production or temporary dislocations in the market. The role of the worker in this picture was assumed to be relatively static; after the seasonal or market dislocations had passed, the worker would return to his former or similar job. But in today's changing economic pattern the causes of unemployment have changed in ways that create a far greater risk for particular workers of long-term unemployment or major changes of occupation, skill, or location that require considerable time for readjustment. Thus, in practical fact, the exhaustion of claimants' benefit rights under existing duration restrictions of the State laws has become a major factor in creating poverty and dependency. Even though the actual number of individuals exhausting their benefit rights before securing employment has gone down in recent years, they still constitute nearly one quarter of all beneficiaries. Obviously, these people have no choice but to turn to public assistance or relatives if jobs cannot be found.

The legislative proposals aim to improve this situation in three ways: (1) by requiring the States to provide benefits for at least 26 weeks to eligible claimants who meet the requirement of 20 weeks of prior employment; (2) by giving additional financial help to States whose own funds are depleted due to heavy unemployment; and (3) by the provision of a permanent program of Federal Unemployment Adjustment Benefits (FUAB) for the long-term unemployed worker with a strong prior attachment to the labor force.

Retraining

Closely related to the problem of duration, as discussed above, is the question of whether the unemployed worker can hope to find a job without acquiring a new or different skill. Under the original UI concept a primary condition of entitlement was considered to be "availability for suitable work," by which was meant that the worker must be continually available in case a job similar to the one he had formerly held opened up. But for a worker displaced by automation, changing skill requirements, or major shifts in employment distribution such continuous "availability" may prove an actual handicap to reemployment if it prevents him from acquiring a new skill through training or from moving to a new location to seek employment. The FUAB program would make a progressive step toward solving this problem by conditioning these extended benefits on retraining where appropriate and by the provision

requiring States to pay regular benefits to unemployed workers while taking training approved by the State agency.

A Stronger Federal Role

Perhaps the most significant contribution of the current proposals to make the UI system a more effective weapon in preventing poverty is the recognition that unemployment is a national problem requiring nationwide standards of remedy. Even though the Social Security Act left the actual administration of UI to the States, it recognized the need for a nationwide system by the ingenious tax offset system which virtually assured universal State participation (which in fact did occur), and imposed certain minimum standards to achieve the elements of a common program. Again, failure to update those standards to meet changing conditions has left the States in the situation where any initiative by a particular State to raise standards above the Federal requirement is resisted by employers who fear for their competitive situation in relationship to those employers in less enterprising States. Obviously, in a Federal system where many States must function within a single national market, the Federal Government is the only jurisdiction which can assure simultaneous updating of provisions among all the States, thus providing a reasonable standard of adequacy without competitive disadvantage to any one State.

From the point of view of the worker, the benefits of such action are obvious, but it is hard to understand why employers have not all been equally alert to see its advantages for them. Not only will this action simultaneously protect their own work force and their own competitive position, but it is the surest way to maintain the market on which their prosperity ultimately depends.

Limitations on UI System

In conclusion something should be said about the limitations of the UI system in the war on poverty. Not all or even a majority of the people who are presently poor can expect to have their poverty eliminated either by finding a job or receiving the kind of substitute income provided by UI. It is even possible that the expanding productivity of each worker may still further reduce the work force by extending the period of youthful preparation, speeding the retirement of the elderly, and encouraging other forms of activity for persons whose major usefulness and fulfillment may lie outside the wage economy. There are other ways of assuring adequate income to these groups, and the effectiveness of UI would not be enhanced by trying to stretch its provisions to meet their needs.

Moreover, UI can never substitute for a full employment economy. By its very concept of entitlement, its role must always presuppose the ultimate and, in fact, prior existence of a job. Thus the creation of jobs—whether in the private sector motivated by profit, the public sector providing authorized services, or the possible extension of public works jobs specifically designed to make good use of available workers—must always take priority as a goal. But within its own supportive limits UI should be recognized for what it is—a major arm of the country's poverty-fighting establishment, needing only the kind of updating of its weaponry that has been so generously supported in other kinds of warfare.

Some "Firsts" in the History of Unemployment Insurance in the United States

1916—The first proposal for a State unemployment insurance law in the United States was made in 1916 when a bill, modeled largely after the British Act of 1911, was introduced in the Massachusetts legislature.

1931—In a special legislative session, Wisconsin enacted the first unemployment insurance law in this country. The Wisconsin Unemployment Reserves and Compensation Act, approved on January 28, 1932, culminated 10 years of legislative discussion in the State.

1935—Following approval of the Social Security Act on August 14, which established the Federal-State system of unemployment insurance in the United States, Congress enacted the unemployment compensation law for the District of Columbia on August 28. This was the first "State law" to include coverage of one or more at any time, and to provide benefit allowances for dependents.

1935—The first State unemployment insurance laws were approved by the Social Security Board: District of Columbia on November 15 and Wisconsin on November 27.

1936—On August 17, Wisconsin paid the first unemployment benefit check to be issued in this country from a State unemployment insurance fund.

1940—On September 23, New Jersey became the first State to enact a provision for preserving servicemen's benefit rights earned before induction for use after military service.

1942—On April 29, Rhode Island became the first State to enact a temporary disability insurance law, to be administered in coordination with the unemployment insurance program.

1944—Michigan was the first State to add a provision for dependents' allowances to its State unemployment insurance law.

1945—Maryland was the first State to eliminate the waiting period.

1946—Total benefit payments exceeded $1 billion for the first time.

1949—On February 28, Kansas became the first State to enact legislation providing for a flexible maximum weekly benefit amount.

1953—Nevada was the first State to increase maximum taxable wages above $3,000.

1954—The Employment Security Administrative Financing Act of August 5, included the first permanent provision for Federal assistance to States with low reserve funds.

1954—September 1, marked the first major extension of coverage under the Federal Unemployment Tax Act—to firms employing four or more employees in 20 weeks, effective after January 1, 1956.

1958—On June 6, Pennsylvania became the first State to sign an agreement with the U.S. Secretary of Labor electing to participate fully in the Temporary Unemployment Compensation program. However, on April 16, Connecticut, prior to the inception of the Federal-State TUC program, but while it was under active discussion,was the first State to initiate its own program of paying additional benefits, equal to 50 percent of regular benefits, to claimants who exhausted their regular unemployment insurance benefits.

1964—On May 2, Hawaii became the first State requiring employer contributions on a flexible taxable wage base. Beginning in 1965, an employer was required to pay contributions in a calendar year based on remuneration paid for employment to each individual not to exceed 90 percent of the "State average annual wages." In 1963, one house of the Idaho legislature passed a measure providing for a flexible taxable wage base.

Significant Dates in Federal Income Maintenance Legislation

1935—The Social Security Act, approved on August 14, provided in titles III and IX of the act the basic framework for the Federal-State unemployment insurance system.

1937—On May 24, the constitutionality of the Federal-State unemployment insurance system was upheld by the U.S. Supreme Court in cases raised by Alabama employers.

1937—Enactment of the Illinois Unemployment Compensation Act on June 30, completed the Federal-State system with laws in 51 jurisdictions—the 48 States, District of Columbia, Hawaii, and Alaska.

1938—Approval of the Railroad Unemployment Insurance Act on June 25, removed railroad workers from coverage under the Federal-State system and set up a special system of unemployment insurance for them.

1944—The Servicemen's Readjustment Act (GI Bill of Rights), approved June 22, included provision for "readjustment allowances." On a uniform formula, Federal benefits for unemployed veterans to be paid by State employment security agencies as agents of the Federal Government.

1946—On August 10, the Reconversion Unemployment Benefits for Seamen program was added as title XIII of the Social Security Act—providing temporary benefits for seamen employed by agents of the War Shipping Administration.

1952—The Veterans' Readjustment Assistance Act, approved July 16, provided for unemployment compensation for veterans under a uniform Federal benefit formula but subject to State availability and disqualification provisions.

1954—A new title, XV, of the Social Security Act was approved on September 1, providing benefits for Federal civilian employees (UCFE). To be financed by Federal funds and paid by State agencies under their own benefit formulas—as though Federal employment had been service under State law.

1954—September 1, also marked congressional approval of the first major extension of coverage under the Federal Unemployment Tax Act. This included employees of firms employing four or more in 20 weeks, after January 1, 1956.

1958—The Temporary Unemployment Compensation Act, approved June 4, provided that, in States choosing to participate in the program, additional unemployment insurance could be paid on a temporary basis to jobless workers who exhausted their regular unemployment insurance benefit rights after June 30, 1957, or some later date selected by a participating State. Federal civilian employees, veterans, and ex-servicemen were included. Administrative and benefit costs for the temporary unemployment compensation (TUC) program were advanced to the States by the Federal Government from general revenue. Effective June 1958; expired June 30, 1959.

1958—The Ex-Servicemen's Unemployment Compensation Act (UCX, an amendment to title XV) approved on August 28, provided unemployment compensation from Federal funds for ex-servicemen completing active qualifying service in the Armed Forces. Benefits are based on the ex-serviceman's pay grade at time of separation. Eligibility requirements of the unemployment insurance law of the State in which he first files his claim for benefits must be met.

1960—Amendments to the Social Security Act, approved September 13, narrowed the employment exclusion so as to include certain instrumentalities of the Federal Government in which the United States has no ownership, employees serving on or in connection with American aircraft outside the United States, employees of "feeder" organizations, and various employees of certain tax-exempt organizations. Increased the Federal tax to 3.1 percent and tightened the eligibility requirements for loans to States. Brought Puerto Rico into the Federal-State system.

1961—The Temporary Extended Unemployment Compensation Act (TEUC) approved March 24, provided additional weeks of benefits to jobless workers who exhausted their regular benefit rights after June 30, 1960. Additional benefits were limited to 13 weeks and States were reimbursed for regular benefits paid after 26 weeks. Federal civilian employees and ex-servicemen were included. No new claims could be filed after March 31, 1962; the program expired June 30, 1962.

1961—The Area Redevelopment Act, approved May 1, included provisions for occupational training and retraining of individuals in redevelopment areas and for weekly retraining payments up to 16 weeks. The weekly rate was based on the average State UI payment for a week of total unemployment. (The training part of the area redevelopment program to be phased out between July and December 1965 and become part of the Manpower Development and Training Act.)

Continued on page 34

Significant Dates in Federal Income Maintenance Legislation—Continued

1962—The Manpower Development and Training Act, approved March 15, provided for weekly vocational and on-the-job training payments, subsistence allowances for trainees living away from home, and transportation allowances for those commuting to the training facility. Weekly training payments based on the average State UI payment for a week of total unemployment but reduced for youth and increased for those potentially entitled to State UI benefits.

1962—The Trade Expansion Act, approved on October 11, initiated a program of Trade Readjustment Allowances and Relocation Allowances for workers adversely affected by trade agreements, permitted under the act, between the United States and other nations.

1963—On December 19, the Manpower Development and Training Act was amended to provide grants or loans in assisting involuntarily unemployed individuals to relocate from their resident community where they cannot reasonably be expected to obtain full-time employment to another community where they have a bona fide offer of employment. Relocation assistance allowances include transportation costs for such individuals, their families, and their household goods.

1965—In the Manpower Act of 1965, approved April 26, benefit and eligibility requirements and relocation assistance allowances were further liberalized.

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Summary of Proposed Employment Security Amendments of 1965*

Federal Unemployment Adjustment Benefits (FUAB)

Eligibility: 26 weeks unemployment; 26 weeks employment (or equivalent) in the State base period and total of 78 weeks employment (or equivalent) in 3-year qualifying period (State base period and preceding 2 years); no current or potential State benefit rights.
Weekly Benefit Amount: That amount payable in the State benefit year which begins the 3-year Federal benefit period.
Total Benefits: 26 weeks in 3-year Federal benefit period.
Payment of Benefits: Special disqualification and certification provisions.

Financing

Matching Grants for Excess Benefit Costs: Annual Federal grants of two-thirds of State benefit costs above two percent of total wages.
Additional Financing: To pay costs of FUAB and matching grants for excess benefit costs, 0.15 percent employer tax and equal amount from general revenue.
Wage Base: Increases taxable wage base to $5,600 in 1967, to $6,600 in 1971 (bringing the UI base in line with OASDI).
Experience Rating: Present standard deleted. Full credit for reduced rates (less than 2.7 percent) to pooled funds (used in all States) regardless of State basis for rate reduction.

Coverage

Nearly 5 million additional workers would be covered under unemployment compensation laws:
- Workers in small firms (one or more at any time).
- Workers on large farms (using 300 man-days of hired farm labor in any quarter).
- Workers in certain agricultural processing.
- Workers in nonprofit organizations except individuals in certain categories.
- Driver salesmen and others working under similar arrangements.

Benefit Requirements

Full Federal tax credit to employers only if State provides:
- Qualifying requirement of no more than 20 weeks of work or equivalent.
- Weekly benefit amount equal to 50 percent of individual's average weekly wage.
- Maximum WBA at least 50 percent of State wage by July 1, 1967; 60 percent, by July 1, 1969, and 66⅔ percent by July 1, 1971.
- At least 26 weeks of benefits for workers with 20 weeks of work in base period.

Additional Conditions

For any Federal tax credit to employers, State must provide:
- Equal treatment for out-of-State claimants as to eligibility and benefit amount.
- Disqualifications (except for fraud, labor disputes, and conviction of a work-connected crime) limited to 6 weeks, with no cancellation or reduction of rights.
- No denial of benefits to individuals taking approved training.
- Denial of benefits if claimant has not worked since beginning of previous benefit year.

Other Provisions

No tax credit to maritime employers in States which do not provide equal treatment for maritime workers.
Staff training for personnel working in the unemployment insurance program.
Increase in basic unemployment insurance research.
Special Advisory Commission on Unemployment Compensation to be appointed in 3 years to study the Federal-State program and make recommendations for improvement of the system.
Change in certification date from December 31 to October 31.

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*The proposed Employment Security Amendments of 1965 (H.R. 8282 and S. 1991) were introduced during the first session of the 89th Congress. Hearings on H.R. 8282 were held in August 1965 before the Ways and Means Committee of the House of Representatives.

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